# Creative Strategies for Financial Sustainability: Partnerships Between Nonprofit Arts Organizations and Restaurants

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Suhee You

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## ABSTRACT

Funding sources for nonprofit arts and cultural organizations are continuously shifting, with individual giving interests changing and foundations becoming more prescriptive. As the number of nonprofit organizations grow, so does the competition for funding. Most nonprofit organizations have to become strategic in generating their revenue, diversifying their funding sources, and specifically creating opportunities for increasing earned income. This thesis research examines the partnerships between for-profit businesses, specifically restaurants, and nonprofit arts organizations. Three cases were studied and are presented to provide some understanding about developing partnerships between the two sectors. Leaders from both the organizations and restaurants were interviewed to gain perspective on the different relationships amongst the group. The findings show that each case is unique and there are different effects financially, whether direct or indirect. While the relationships varied, the research shows that a partnership with a restaurant creates opportunities for nonprofit arts organizations to increase their revenue through earned income.

# INTRODUCTION

In the summer of 2014, I made a big move in my life - I made the move to Philadelphia to pursue my graduate degree here at Drexel University. Born and raised in southern California all my life, this was my first time living on the east coast. I was excited and actively began looking for things to do - particularly in the arts and cultural realm and dining experiences. What I learned was that there are a copious number of experiences here in which to engage. Through these searches, I began to notice a trend of nonprofit arts organizations partnering with restaurants.

In November of 2013, FringeArts moved into a permanent building to serve as their headquarters. During renovations, the organization made the decision to build a restaurant inside, to be part of the organization's new vision. In the same year, the Pennsylvania Academy of Fine Arts (PAFA) announced that long-established restaurateur and caterer Stephen Starr would be the exclusive catering provider for PAFA. The following spring season, they announced that they would partner with the restaurant mogul to revamp and reopen the existing PAFA cafe to serve La Colombe coffee, gourmet sandwiches and made-to-order salads (Denny 2013). At the same time, another top Philadelphia restaurant family, the Garces Group joined forces with the Kimmel Center for the Performing Arts and debuted the high-end restaurant Volvér (Jenkins 2015).

It made me wonder what the relationship was between the two sectors and I asked myself, "As more nonprofit arts organizations look to find creative solutions to help keep their doors open, is a partnership with a restaurant a viable solution for financial stability for nonprofit arts organizations?"

## PURPOSE/PROBLEM STATEMENT

The nonprofit arts and culture sector has been slow to adapt to the many advancements and changes over the years. Demographics have changed significantly and the level of engagement desired by constituents have also changed. Our society is a different one than what it was 100, 50, and even 5 years ago. With individual contributions shifting and foundations becoming more proscriptive in their grant processes, nonprofit arts organizations should proactively implement new practices to diversify their revenue streams.

We have become a society dependent on consumption. Money, retail, dining, luxury, convenience - these are all words that seem to epitomize American culture. Rarely do we hear the value of arts and cultural experiences in describing America, and this is a problem. This is all relevant in why increased earned income is critical for nonprofit arts organizations. How do we leverage this culture of consumption to benefit nonprofit arts organizations?

This is what I explore in my research - maybe the solution is for arts organizations to brand themselves with restaurants, leveraging customer bases and exposure.

I sought to find answers to the following questions:

- What are the effects of nonprofit arts organizations partnering with restaurants?

- Financially:
    - Has the partnership directly increased revenue for the nonprofit organizations?
    - Has the partnership increased the diversity of funding from other sources?
    - Has the partnership changed the mix of earned vs. contributed revenue?

- Audience:
    - Does the partnership increase size or diversity of the arts organizations' audiences?
    - Does the partnership impact how the arts organizations engage their audiences?

- Are the relationships mutually beneficial? Is all the work towards a partnership worth it in the end?

## HYPOTHESES

At the end of my research, what I anticipated to find was enough information to help nonprofit arts organizations understand the dynamics of partnerships with restaurants.

More specifically, my hypotheses are:

- That the nonprofit arts organizations will realize increased audience engagement and participation.
- The nonprofit arts organizations will realize some increased earned revenue.
- The partnerships will increase the organizations' revenues but not significantly enough to financially sustain them.
- Some or most of the nonprofit arts organizations stay true and focused to their missions, delivering their intended services.
- If the agreements between these partnerships are not well-established early on, the lack of clarity around expectations leads to and eventually develops into unhealthy relationships.

I would like to share my findings with nonprofit arts organizations (whether they are struggling or not) and restaurants considering a partnership with a nonprofit arts organization, so that they can understand the dynamics between the two sectors and determine if a partnership will be beneficial for them. I hope my research will serve as a tool for the two, to guide them through their process of whether or not to partner up with each other.

## METHODOLOGY

The research methodology of the existing literature is primarily qualitative, which mainly examines case studies. In my attempt to answer these questions, I looked to various methods - including case studies and conducting interviews to help me understand the full dynamics of the two sectors. In an informal survey I took of my peers, the majority said that the first activity to be brought up when asking friend(s) and/or family what they want to do is to go eat. Additionally, I created a semi-formal online survey, sent it out to a small group of academic peers and colleagues, and received similar responses. This helped confirm my perception of the link between arts participation and food, and was the start of my research for this topic.

To further develop my research, I interviewed a total of seven people, including Presidents, Vice Presidents, Executive Directors, Financial Accountants, and owners of the restaurants. These interviews helped by allowing me to hear first-hand from the people who have experienced the process of developing a partnership and its effects. There are specific restaurants and nonprofit arts organizations I have identified and reached out to:

- Case 1: Philadelphia Art Alliance and Le Chéri
    - Interviewee(s):
        - Thora Jacobson, Executive Director, Philadelphia Art Alliance
        - Susan Lee, Financial Accountant, Philadelphia Art Alliance

        - Charlotte Calmels, Owner, Le Chéri

- Philadelphia Art Alliance has always had different restaurants in its building over its 100-year history, sometimes in a lease arrangement, occasionally operated directly by the Art Alliance. The current restaurant that is housed inside the organization is Le Chéri.

- Case 2: FringeArts and La Peg
    - Interviewee(s):
        - Nick Stuccio, President and Producing Director, FringeArts
        - Melissa Bridge, Financial Director, FringeArts
        - Peter Woolsey, Owner and Proprietor, La Peg

- FringeArts decided to become a year-round organization, offering more programs in a permanent location. While revamping the old building, the organization decided to build a restaurant inside called La Peg.

- Case 3: Kimmel Center and Volvér
    - Interviewee(s):
        - Ed Cambron, Executive Vice President, The Kimmel Center

- The Kimmel Center houses Volvér - a Jose Garces restaurant. The restaurant sits next to the main performance areas, but on the Kimmel Center's property.

With limited existing literature around this specific topic, this thesis relied heavily on these interviews and gave me a variety of perspectives on the dynamics and relationships of the two businesses. I looked into the revenue models of each organization, management practices and techniques (both individually and collectively categorized between for-profit and nonprofit sectors), and the overall financial health of the organizations. Other sources I used included: the organizations' IRS Form 990s, websites, business articles, and audited financial documents.

After conducting and transcribing all my interviews, I went through a process of coding them to find common themes. When I completed this process, I analyzed all the information that was given to me, including financial documents and pieced everything together to form my conclusion.

## LIMITATIONS TO MY RESEARCH

My research focused primarily on these three organizations and restaurants in Philadelphia. I hope that this thesis will be the base for a much larger project at a later time. Eventually, I would like to study partnerships outside the city of Philadelphia and look into other major cities like New York, Chicago, and Los Angeles. However, due to my current time and resource restrictions, this thesis will not travel into these cities now. My thesis won't attempt to act as the solution for financial sustainability for either the nonprofit arts organizations or the restaurants. Since there are so many factors and variables to consider within each organization and business, it would not be appropriate to apply my findings to the whole sector. This research also does not attempt to answer whether the partnership with a restaurant will be beneficial for the nonprofit sector in general.

# LITERATURE REVIEW

The general study of the two sectors - for-profit businesses and nonprofit organizations has been explored but still needs further development. The study of the specific relationships between restaurants and the nonprofit arts organizations is fragmented and while the existing literature focuses primarily on the broader topic of the two sectors, it served as a basic guide for my research.

As the funding pool for nonprofit arts organizations continue to change, they may need to develop ties with for-profit businesses in order to survive. “Alliances are bound to become an increasingly important organizational strategy for nonprofits” (Austin 2003, 9). By being strategically proactive rather than reactive to what for-profit businesses might offer, nonprofit organizations can increase the scale of their cross-sector collaborations and thus enhance their sustainability (Al-Tabba 2015). While most nonprofit organizations begin to plan a partnership or collaboration when they reach a financial crisis, acting before they reach that point can be beneficial beyond providing cost savings (Stengel 2013). The idea is to build relationships and partnerships early on to create a more secure financial position within the two sectors, but more specifically for the nonprofit organizations. The end result of this collaborative partnership is that both organizations are stronger (Stengel 2013).

As MacIndoe and Sullivan write, “Collaborations can contribute to sustainability by providing additional resources, skills, and knowledge that enable nonprofits to reach new constituents and to access new revenue streams. Organizational collaborations can lead to increased organizational effectiveness by reducing the transaction costs that accompany repeated interactions in activities such as joint service delivery. Finally, collaborative arrangements can provide nonprofits with competitive advantages over their peers by situating them within information and resource networks" (2014).

The new relationship between the arts and hospitality industry provide benefits that extend outside of two businesses. According to the 2012 American for the Arts' "Arts & Economic Prosperity" report, nonprofit arts and culture organizations generated $61.1 billion into the economy in 2010, generating income for local businesses - restaurants, parking garages, hotels, and retail stores. "An average arts attendee spends $24.60 per event in addition to the cost of admission and the data shows nonlocal attendees spend twice as much as local attendees ($39.96 vs. $17.42)." Miami is one city that seems to be embracing the new ventures between the two sectors. The Arts & Business Council of Miami, along with the Greater Miami Convention and Visitors Bureau hosts an annual Breakfast for the Arts and Hospitality Industry to explore the alliances. And there is a focus for cities to target and attract tourists to expand the normal tourist experiences (Bruney 2014). In a recent report from the Americans for the Arts, "earned income represents a little over half of the total revenue of nonprofit arts organizations (e.g. ticket sales, sponsorships, and fundraising events). Private sector contributions (individual, foundation, and corporate giving) are the next largest portion, accounting for about one-third of revenue. Individual donations comprise the largest segment of private contributors" (Americans for the Arts, 2015).

For most of us, dinner and a show go hand-in-hand. We are a culture that enjoys dining-out and the abundance of choices is overwhelming. It is without a doubt that we crave the social experiences of dining-out. People see that attending arts/cultural events and dining-out are ways to engage and interpret them as social experiences. When meeting friends and/or family, questions we usually ask are, "Are you hungry? Do you want to go get something to eat?" While having options is great, attention to dining price points clearly impact the efficacy of the relationship between restaurant and the audience of the nonprofit arts organizations? What kind of audience are they trying to attract? As the funding pool of the nonprofit organizations shrink, so is the audience size (Kotler 1996). As costs of programming and operating budgets grow, are the restaurants' higher price points an effective strategy to compensate for the shrinkage of the audience?

There's an importance of brand fit and research shows that strong brands provide their parent companies with many strategic advantages, including the ability to charge price premiums (Becker-Olsen 2006). Given the decline of government funding for nonprofit organizations and the increase of competition for the same funds, it is important for nonprofit leadership to create and maintain distinct brand identities that clearly differentiate themselves in the marketplace and lead to high levels of brand equity (Becker-Olsen 2006). Building brand equity is an important factor that goes into the planning process of a strategic partnership, at the same time however, for-profit businesses are also looking to maintain social accountability and responsibility.

While developing strategic plans to sustain nonprofit arts organizations can lead to more funding, there are still issues and concerns of the nonprofit organizations for funders. Social enterprise has the potential to change the nonprofit sectors' strategies for sustainability. There is a need for diversified revenues when nonprofit organizations are most at risk while overall funding decreases.

As more nonprofit arts organizations develop a strategy to partner with private corporations and create a reliance of funding from earned incomes, there is the growing question and worry of the nonprofits straying away from their original missions. By following the for-profit's business models and by creating a brand for themselves, nonprofit organizations face claims that they are losing the focus to deliver arts and cultural experiences to their communities and focusing too much on profits rather than the services of engaging arts and cultural experiences to their communities. But by properly and strategically partnering with the right "fit" however, the two organizations can develop a cohesive brand for each other with the similar missions in mind. The result is that they are now better positioned to withstand fluctuations in funding, and can prove to funders that they are proactive about maintaining efficiency (Stengel 2013).

## CASE STUDIES

### *Philadelphia Art Alliance (CASE 1)*

*Location:*

251 S. 18th Street, in the neighborhood of Rittenhouse Square and across from the Rittenhouse Square Park

*Budget:*

About $550,000

*Staff:*

Total 5 (4.5 FTE)

*Mission:*

The mission statement for the organization has changed since its founding in 1915, narrowing its focus to contemporary craft and design, as currently articulated on the organization's IRS Form 990.

"The Alliance is dedicated to the advancement and appreciation of innovative contemporary craft - work in ceramic, glass, fiber, metal and wood - and design and to inspiring dynamic interactions between audiences and artists in a setting of historic and aesthetic significance."

*Programming:*

The organization's programming consists of seasonal exhibitions, focusing on contemporary craft and design. Programs vary, depending on the exhibition's content, concepts, and artists involved but usually includes artist talks, lectures, or panel discussions.

In addition to these programs, the organization is also working on developing regular and themed pop-up shops both to generate more earned income, and to broaden and deepen its current constituency of local craft constituency and collector audience.

*Audience:*

Much like the organization's mission, it is challenging to pinpoint the target audience. The organization continues to reach out to a somewhat diminishing audience of donors and a small group of Rittenhouse Square residents for its fundraisers. The organization's current audience is one that has been a part of the organization for some time now, already engaged and familiar with the organization. But as this small group of people grow older, it has become increasingly clear that this audience needs to expand and change. The current audience includes local artists, art instructors, members and staff of the arts sector, friends of the Board, etc. For years now, because the organization has had such a high turnover rate, when it comes to Executive Directors and staff, little within the organization has stayed consistent. With its current staff, the organization is slowly trying to build a new, yet solid basis in operations, in order to broaden its audience and engage new and younger constituents. However, the new staff has been presented with much pushback and resistance from the older Board.

*Revenue model:*

According to the organization's accountant Susan Lee, "The PAA is trying very hard to figure out what the best revenue model is for them - restaurant revenue, donations and fundraising events." At the end of FY14, the organization's contributed revenue comprised 19% of its total revenue, while around 66% of the total revenue was earned.

For years now, the Art Alliance has been heavily reliant of the income from the restaurant to generate revenue. Another major source of revenue has been from contributions made by the same small group of individual donors, who seem to be engaged by lavish fundraisers. Other than these two sources, there have not been many other sources generating unrestricted operating revenue. The Art Alliance had launched an ambitious curatorial program in 2011, but in the context of a proscriptive and shifting climate or funding initiatives (like the Pew Center for Arts and Heritage - PCAH), the ability of the organization to sustain organizational growth and meet the marketing challenges and staffing challenges of PCAH, proved very challenging.

*Expense allocation:*

The organization assigns expenses directly to the program or cost center to which they relate. In 2014, about 56% of the organization's total expenses went into Program Services. Overhead costs are allocated based on a salary allocation to the programs, and counts for 23% of the organization's Administration expenses. The director assigns the salaries to a cost center based on what each staff member spends her time doing.

*Restaurant:*

Le Chéri

Menu: French foods, Swiss and French Wines, and French liquors

Located inside the Wetherill Mansion (home of the Philadelphia Art Alliance), the restaurant opened its doors on November 2013. It is the second venue for husband and wife owners, Chef Pierre and Charlotte Calmels. The space is quaint and intimate, however it is able to accommodate seating for about 75 patrons. It has an outdoor garden space that accommodates an additional 20-30 patrons, when the weather permits.

*History:*

The Philadelphia Art Alliance was established in 1915 and was originally created so that artists could have a space in which to meet. The organization has had a restaurant from its earlier days and for many years, was its own. It is only in the last 20-25 years that an outside vendor has been sought to run the restaurant and catering. The current vendor, Le Chéri, was selected after a history of several restaurant vendors who were alternately successful and not.

In the last decade or so, the organization has had several different restaurants, with Opus 251 being the longest running restaurant vendor. After its closure, came Le Jardin and then Gardenia, which was run under the large national foodservice company, Restaurant Associates (RA). In 2011, RA announced the remake of the restaurant to be more accessible and offer a modern American menu. There were two RA restaurants within the organization's history, and the remake would become the second. This was the most recent one to Le Chéri, called Rittenhouse Tavern. It had the perfect pedigree, a top chef in Nick Elmi, and a great market for people who loved to eat in restaurants in and around the square. But its management, under RA's Ed Sirhal turned the company's attention to New York. After signing a five-year lease, it was only honored for ten months and left abruptly on short notice. Within the first ten months, the company did very few of the things the had promised to market the restaurant. This however may not have been entirely their fault. There was some disarray on the management side of the Art Alliance.

It was a destructive relationship, with RA overspending on what they projected to be the improvements they needed to be able to run a first-class restaurant kitchen. And this left the organization in a bind because it lost five months of rent, which was the equivalent of about $40,000. Additionally, the lease called for the Art Alliance to reimburse RA for 50% of the depreciated value of kitchen improvements. That amount was re-negotiated to a no-interest repayment of $170,000, over 10 years. It is a critical component of the Art Alliance's serious financial constraints right now. *(See Appendix iv)*

With the space empty in late spring 2013, the Board began their search for a new renter. The reason that Le Chéri was selected is because many people on the Board, in particular the Board Chair, Carole Shanis were all big fans of Bibou (Owners of Le Chéri, Charlotte and Pierre Calmels' first restaurant in South Philadelphia). The Board knew that Charlotte and Pierre were looking to open a new restaurant, they were approached - along with a couple others, but there was significant advocacy for Charlotte and Pierre to open their new restaurant in the building of the Art Alliance.

It took them two months from the time they signed the lease, to opening the restaurant in November 2013. They made a number of upgrades in the bar and the restaurant itself, but basically everything else was as is.

*Partnership agreement:*

There is a monthly rent that the restaurant pays the organization, they also pay a percentage of the organization's utility costs, all of the applicable real estate taxes and a percentage of the private dining fees they generate. *(See Appendix v)*

The restaurant has first rights to any special event rentals that come into the organization. But since the restaurant has the ability to refuse catering the event, the organization has the freedom to book caterers or food and beverage through other vendors. This is a policy that the organization and restaurant follows, however this term is not included in the lease agreement.

*Financial risks for the organization:*

1. The organization has a big, very old, and expensive building to maintain with almost no systems replacement protocols or building reserve to fund depreciation.

2. PAA needs to diversify its revenue streams - earned and contributed. Currently, the restaurant is almost the only regular cash flow for the Art Alliance. While critical, it puts immense pressure on a precarious business model. Restaurants are notoriously risky endeavors. To offset this significant risk, the organization's source of funding needs to broaden.

3. With the slow adaptation to society's advancements and reaching out to new audiences, there's the risk of the community losing interest in the organization and its mission. The Art Alliance's dependence on older donors and little by way of resources to engage new and younger audiences, puts the future health of the nonprofit at risk.

*Analysis of Case 1*

In this case, the organization relies too much on its revenue from the restaurant and yet the relationship seems to be the most challenged. The main issue with the relationship here is that there was no real solid structure within the agreements. With the high turnover rate within the organization, the ability to develop a structured relationship between the two was not established. There are questions and confusion from both staffs, on whom the actualization of the partnership relies. The PAA, as the landlord, struggles to provide its tenant basic maintenance. Another key issue here is communication, or the lack of it, that goes back to issues of continuity and governance. At the same time as Le Chéri opened its doors, the third Executive Director in a year was just about to leave. The lease was drafted by a new Board Chair, a real estate attorney, and the brand new Executive Director who used templates of catering and operational models that proved to be inconsistent. Ultimately, after two and a half years, both parties struggle with communication, leading to confusion regarding the use of space within the building. Whether it be exhibition dates, special events, and/or programming, there is only halting consistency in the way these things are communicated between art gallery and restaurant/caterer, and the results are unclear expectations and frustration from each other.

This relationship is lopsided, giving the restaurant leverage over the organization. To owner of Le Chéri, Charlotte Calmels, “the organization needs the restaurant more than the restaurant needs the organization.” The partnership was formed as a reaction to the previous tenants’ unexpected departure, and one that the Board hoped would solve an immediate financial crisis; there was no strategic plan involved. The space had to be filled soon to help cover costs for the organization. There was a basic contract that was created but too much of the logistical agreements were not established. Thus creating a very unbalanced relationship between the two partners.

## CASE STUDIES

### *FringeArts (CASE 2)*

*Location:*

140 N. Columbus Blvd. (at Race Street), in the neighborhood of Old City and along the Delaware River Waterfront

*Budget:*

Around $3 million

*Staff:*

Total 19 and according to the organization's 2013 IRS Form 990, approximately 116 individuals were employed in the calendar year. As a performance organization, this number reflects independent artists/performers and outside staff hired for special events.

*Mission:*

"FringeArts presents world-class, contemporary performing arts that challenge convention and inspire new ways of thinking."

*Programming:*

Since moving into their permanent space, FringeArts has changed their model quite a bit. The organization still focuses on presenting avant-garde, world-class, and contemporary performances but have expanded from the original 5-day festival to providing year-round programming. There are two focal points in delivering their mission:

- Year-round performances with the partnership with La Peg Brasserie:
    - FringeArts Presents, Music Series, Late Night, Outdoor Movie Series, Scratch Night, and Fringe in the Market
    - 17-day Fringe Festival (Curated, Independent, Festival Late Night, and Digital Fringe)
- The organization also offers a membership program and for the last six years, presented Feastival as their annual fundraising gala. This festival joins forces with Philadelphia's world-class restaurants to benefit FringeArts.

*Audience:*

As the organization has grown, so has its audience. The organization pursues to engage a diverse audience while focusing on support for local and international performing artists. Since the organization increased their programming to be year-round, there is no question that audience participation has grown. Because the organization and restaurant just completed their first complete year of operations, there are no existing numbers to measure their new ones against. According to President and Executive Director Nick Stuccio, they have seen an increase in restaurant patrons when the organization presents shows.

*Revenue model:*

The organization relies heavily on contributed revenue - individual, foundation and government grants, and sponsorships to generate about, according to their Financial Director, Melissa Bridge, 80% of their revenue. According to the organization's 2013 IRS Tax Form 990, revenue generated from Contributions and Grants was a little over $5.6 million. Their program revenue generated $948,341, a fraction of their overall revenue of a little over $6.5 million. On their 2014 consolidated financial statements, it shows that the organization's revenue decreased from its prior year by a little over $1.5 million. Contributions and Grants generated most of the organization's revenue - about 78% to be exact. While other revenue streams, such as tickets sales and even their annual gala generated a little over $1.1 million - about 22%.

*Expense allocation:*

According to both the organization's 2013 and 2014 financial documents, Program Services Expenses comprised for over $2 million each year - approximately 72-73% of total expenses. According to my interview with Bridge, almost all of the organization's expenses goes directly to the shows and it has always focused on spending majority of their income in programming. The organization continues to spend a significant amount on Program Services. With the need to provide year-round programming, and the desire to continuously grow, the organization will have to continue earning and spending a significant amount in and around programming to stay true to their mission.

Year-round programming means the organization needs year round staff. A good portion of expenses this year went into salaries and wages. In 2014, a total of $1,030,403, around 30% of the functional expenses.

FringeArts does a lot of direct expensing. They track extremely detailed expenses so anytime anybody spends money, they have to class it by attaching a code to every single expense. Indirect expenses are a little harder to allocate but they are based on the staff and how many staff members are needed to support each department - how many people they have in programming and accounting, how many they have in finance and management, but most of their staff are to support the production. Employees are sometimes hard to quantify because FringeArts has so many of them, so they really look at the number of hours people have worked. The organization has a long personnel roll but the number of hours each person works is not that big. In terms of full-time, year round staff, the organization has 17 full-time, year round staff. Bringing in a building has changed their financial story and all their expenses are so much greater now.

*Restaurant:*

La Peg

Menu: Originally opened as a French Brasserie and after its first year open, changed to an American Brasserie. The restaurant has a full bar, serves a large selection of European and American craft beers and a French focused wine list.

Located inside the renovated historic fire station (now home of the FringeArts), the restaurant opened its doors on August 2014. It is the second for Executive Chef and Proprietor, Peter Woolsey. The space is sizable, easily accommodating over 100 patrons inside and also has a spacious outdoor beer garden that accommodates another 100 plus guests.

*History:*

In 1997, FringeArts was founded as a small, 5-day, grassroots-type festival that provided opportunities for contemporary performing artists to connect with their audiences in exciting social environments. It aimed to provide educational and cultural events through the presentation of a performing arts festival in the greater Philadelphia area. The first festival, 60 groups took over Philadelphia's Old City neighborhood to present works in theaters, nightclubs, galleries, abandoned buildings and even a parked car. After 20 years, much has changed. The organization has grown to be known for its edgy, avant-garde work and puts on more than 1,000 performances by national, international, and local artists of all disciplines.

On June 2012, the organization acquired its first and new permanent home for $750,000 and announced a budget of $7 million to renovate the old historic fire station along the Delaware River Waterfront. The whole project reached around $8 million to complete. The organization moved into its new home in October of 2013 and opened its doors in November that same year. By the end of FY13, the organization hoped to complete Phase One of renovations with a budget of $5.2 million. The once historic pumping station for the city's fire trucks, on the Delaware River Waterfront was transformed into a state-of-the-art performance center, featuring an adaptable theater that can be used for numerous experiences and accommodates seating for up to 240 guests. The building has become the headquarters for the growing organization and includes a partnership with Chef Peter Woolsey of La Peg, a brasserie and beer garden that also presents performances.

Chef Peter Woolsey also has a successful restaurant Bistrot La Minette that has been operating for six years. When deciding on whom to partner with, much like the other organizations, there was a list comprised of potential partners. It was through several meetings with the potential partners, staff and Board meetings, that helped narrow the perfect fit - according to what the organization's focus was. The Board is comprised with a significant number of restaurateurs itself and it was through Board member, Audrey Claire-Taichman who brought the two together at the end. After the first meeting, Nick Stuccio and Chef Peter Woolsey knew that they would be a good fit. Chef Woolsey was open to a more collaborative relationship with the avant-garde and edgy organization, and often times the two will work together to create new programs and menus. After successfully running his first restaurant, Chef Woolsey was looking to grow and searching for a new opportunity and challenge. This partnership came at the perfect time for the two businesses.

*Partnership agreement:*

There is a combination of rent and profits that are shared. The restaurant is managed by a for-profit entity Philly Pump House Association *(See Appendix vi and vii).*

This partnership is very cohesive and one that seems to operate almost as one entity. The cultures of the two businesses are a more relaxed and lenient one, with a good brand fit. With many restauranteurs who sit on the organization's Board, it would be interesting to know the catering agreement between the organization and the restaurant. According to my interview with Chef Peter Woolsey, he had very little interest in pursuing a more active catering business.

*Financial risks for the organization:*

1. They need to diversify their revenue streams. Currently they are too reliant on foundations and government grants. I think the partnership with the restaurant is an opportunity for the organization to get creative in generating some more earned income.

2. Having a building is always going to be a risk. They are starting to build a capitalization plan, which they never had because they did not have to. With the new building, they now have to think about replacement and repairs. Prior to 2013, the organization had little need for a Working capital, an Operating reserve, and Capital replacement reserve. However, as the organization gained a new building, it also gained a tremendous amount of risk. So building these new risk capital funds now is pretty crucial.

3. Lastly, the general risk of the community's interest in the arts and losing arts funding. This is similar for all arts organizations but definitely something to be careful about.

*Analysis of Case 2*

Case 2 continues to rely heavily on restricted contributed revenue for its programming. The restaurant presents opportunity for increasing unrestricted revenue. The partnership with the restaurant was really about creating a more engaging experience for their audience - audience and artist engagement. The partnership developed as an extension to fulfill the organization's mission. The partnership was not just to increase earned income but to create a more engaging experience for the constituents. The relationship between these partners is quite healthy. The relationship is probably the most leveled and the most collaborative. The organization here again, chose to partner with a small but successful restaurant.

The organization is in a very special place. The building, partnership, programming are all new, so the capital structure is being newly developed. I know that leadership in this organization are keen to the changes and needs going forward, however it is a huge risk, knowing that currently there is no Capital replacement reserve, Risk capital, Working and Operating reserves. Without these funds secured, the organization is in a vulnerable financial position. FringeArts functioned fairly well its first year as a full-year organization, with a new partnership and building. But because the organization changed its business model, almost completely, it is challenging to see the effects of the partnership. Since FY15 was the first full year of operation for the two, it now has the proper base to measure numbers against.

During my interview with FringeArts' Financial Director Melissa Bridge, I found out that the restaurant recently changed its culture to a more relaxed and casual environment. The staff switched from button-downs to t-shirts and from French cuisine to a more casual Americana menu, offering staples like burgers and fries. As the organization continues to grow in programming, presenting world-renowned artists the organization grows into a more commercial-like entity. The organization is desperately hanging onto their grassroots upbringing and background. They don't want to lose their spontaneity, the philosophy that they have come to be known for. During my interviews with both Stuccio and Bridge, it was clear that one of their goals is to continue to grow and expand, so it will be interesting to see how they hold onto it. While the goal of the restaurant isn't to bring in a high amount of profits, the organization is expecting their earned income revenue to grow as the partnership matures.

## CASE STUDIES

### *Kimmel Center (CASE 3)*

*Location:*

300 S. Broad Street, in the neighborhood of Center City and along the stretch known as the “Avenue of the Arts”

*Budget:*

Around $40 million

*Staff:*

Total 177 and according to the organization’s 2013 IRS Form 990, approximately 830 individuals were employed in the calendar year. As a performance organization, this number reflects independent artists/performers and outside staff hired for special events.

*Mission:*

“Kimmel Center Inc.’s mission is to operate a world-class performing arts center that engages and serves a broad audience from throughout the Greater Philadelphia region.

The principal means by which The Kimmel Center achieves its mission include:

- Operating and maintaining world-class performance venues including the Kimmel Center for the Performing Arts and the Academy of Music.

- Providing state-of-the-art venues and support facilities for its resident companies and a broad range of other regional performance groups at below costs.

- Presenting artistic programming of the highest quality that serves diverse audiences and brings world-renowned artists to Philadelphia.

- Providing vital arts education and community programming to serve the interests of a broad and diverse audience."

*Programming:*

The organization's programming is vast. It houses five spaces within the Center, manages 3 outside theaters, and has 8 resident companies:

- The Kimmel Center for the Performing Arts houses a variety of performance and meeting spaces:
    - Verizon Hall - 2,500 seat concert hall
    - Perelman Theater - 650 seat recital theater
    - SEI Innovation Studio - a 2,688 square foot black box theater

- Commonwealth Plaza
- Hamilton Garden

- The Center also manages three other theaters:
    - Merriam Theater - 1,841 seat theater owned by the University of the Arts and houses student activities and projects approximately 10 weeks out of the year
    - Academy of Music - 2,900 seats, owned by the Philadelphia Orchestra
    - Forrest Theatre

- 8 resident companies:
    - The Philadelphia Orchestra - Yannick Nézet-Séguin, Music Director
    - The Chamber Orchestra of Philadelphia
    - Curtis Institute of Music
    - Opera Philadelphia
    - The Philly Pops
    - Pennsylvania Ballet
    - Philadanco!
    - PCMS Concerts

In addition to all these programs, the organization also presents a range of community programs, that complement its resident companies and serves diversity - rock and roll kind of programming, jazz, a series of Viva, which is Latininspired programming, a lot of programming targeted to African American communities. The organization tries to make sure that its campus, which has a lot of classical programs in it, such as operas, orchestras, and ballets is being filled out with more diverse programs.

In 2011, the organization launched the Philadelphia International Festival of the Arts (PIFA). This festival takes place across the venues of the Kimmel Center and select locations throughout the city. It is a 16-day festival that presents local and international performances and installations, curated by the organization.

*Audience:*

Because the organization produces so many different types of programming, ranging from student matinees and classes to Broadway performances and classical performances, it serves a wide range of audiences. According to Vice President Ed Cambron, the organization serves a broad and diverse community - with locals to the city, domestic travelers, and international tourists.

*Revenue model:*

The organization's main source of revenue is earned - approximately 90% of its total revenue being earned and most entirely from ticket sales. According to Vice President of the Kimmel Center, Ed Cambron, this is highly unusual for a nonprofit arts organization. In FY14, the organization generated $30 million earned compared to $3.9 million from contributions and grants.

The organization is leveraging the assets of the building. It owns and manages 9,000 seats along the Avenue of the Arts and on top of presenting their own shows, it manages the Academy of Music, and the Merriam Theater, all of who the Kimmel Center receives rent from. On the organization's Form 990, rental income was little over $8 million. This was from various places - from the resident companies that call the Kimmel Center home. The organization also charges rent for their Broadway series, even though the Kimmel Center is the presenter, they charge rent that the Producer pays and they also take a share of profits. Additionally, there are outside rentals included in this total, such as weddings, meetings, etc.

The Kimmel Center receives rent, a percentage of concessions, and all in-house catering. It also receives a percentage of any outside catering revenue the restaurant books, because the Garces catering services kitchen is inside the organization. The organization has invested quite a bit in the kitchen and space for the restaurant. The Kimmel Center serves as the Garces catering's headquarters because it has a very large infrastructure kitchen for its catering, that they do all over the city. And the organization also gets a portion of those profits. They receive all this and yet it all still only adds up to a small percentage of the organization's operating budget. It's not a solution that solves the economic challenges of an organization like the Kimmel Center, but it is a part of it. What drives revenue for the organization is leveraging the asset in the venue like rentals. By partnering with a celebrity chef, the organization has leveraged its brand status. Rental income increases, catering income increases and not because of the organization's space, but because it has a relationship with a world-class catering company. If you want to have a wedding at the Kimmel Center, it is a good thing because you're getting great food and great space, and that drives more of the revenue from the rental than the profit from the food.

*Expense allocation:*

The organization spends a significant amount of its total expenses in programming. In FY2014, approximately $39,541,734 which comprised of around 88% of total expenses and only about 9% of its spending went into Administration costs.

*Restaurant:*

Volvér

Menu: The restaurant serves 8-course and 12-course tasting menus, inspired by Chef Jose Garces' culinary travels. The menu is seasonal and consistently changes. A full bar is offered with various options, including beverage pairing available. In 2016, the restaurant was awarded with a Five-Star rating by Forbes Travel Guide, recognition offered to only 56 restaurants worldwide.

Located inside the Kimmel Center, the restaurant opened its doors on April 2014. It is one of many for chef and owner Jose Garces, and is the headquarters for the chef's catering group, Garces Events. The space is sizable with a large open kitchen, however has a small and intimate dining room, accommodating around 38 patrons. Adjacent to the dining room is Bar Volvér, offering patrons a full bar experience.

*History:*

Kimmel Center Inc. was established in 1996 as part of the Philadelphia Orchestra's plan to build a new home for itself and at the time Mayor Edward Rendell to build a much-needed space for Philadelphia's most prominent performing arts companies. Groundbreaking for the new Center began in 1998 and opened in 2001. In 2013, the organization partnered up with restaurateur Jose Garces, to open Volvér.

The organization went through a process, a restaurant selection process (RSP) to get interest. There was a list of four or five restaurants, but the organization ultimately chose the celebrity chef. The process was a combination of the restaurant's willingness to accept the financial parameters from the deal. It really was about quality and reputation, because the organization wanted to make sure it had a restaurant that fit its brand. The Kimmel Center prides itself as an international home of great art, home of the Philadelphia Orchestra, and knew that the restaurant had to fit the same caliber. It also needed to look at some capital investment in building a restaurant because it was turning a gift shop into a restaurant. Financially, it had to make sense given the investment the organization was making and it had to have a solid term of commitment behind it.

When the building originally opened, the organization was working with Restaurant Associates. It then went with Wolfgang Puck but when Wolfgang Puck left, the organization went to Jose Garces. During my interview with Ed Cambron, he stated that “the beauty of Jose Garces is he’s a celebrity chef. We’re in the business of a lot of celebrities, via music directors or soloists…and the fact that it’s designed in a way as a performance space. So it was a good match.”

*Partnership agreement:*

Volvér pays rent and shares portions of its profits with the organization. The organization has an exclusive agreement with Garces, which comes with its advantages and disadvantages. The Garces catering group provides the Kimmel Center’s concessions, catering for all special event rentals, and any organization events. It has catering rights for all food and beverage related events. This also means that the organization receives shared profits from all catering services provided by Garces Events, whether they be internal events or outside catering events. The unique thing in this relationship is how complex it is and how it drives revenue from multiple sources.

*Financial risks for the organization:*

One of the major financial risks for the organization is its dependence on earned income. As Ed Cambron had mentioned, the organization is earning around 90% of its revenue and is highly unusual for a nonprofit arts organization.

While this revenue model appears more attractive than the organization relying 90% of its budget from contributed revenue, it is best not to rely heavily on one income source. Rather, it is best to have a balanced earned income and contributed revenue. The Kimmel Center's revenue model introduces this question of why the organization receives the nonprofit status - along with all the benefits of being one, while for-profit concert halls like the Electric Factory and Union Transfer can provide similar programs.

### *Analysis of Case 3*

Case 3 continues to rely heavily on earned income through ticket sales. The organization has always relied on ticket sales to generate a large portion of their revenue. However, the partnership with the restaurant was not developed to generate more earned income. Rather it was created to leverage the brand name of the organization by partnering with a household brand name that comes from a celebrity chef, Jose Garces. While the rent from the restaurant does not generate much of the organization's revenue (generating only a fraction), the organization does rely on percentages of the restaurant's catering services.

While this partnership may have been developed for image and marketing purposes, there is obviously financial gain from the partnership - mainly through its catering services. This relationship is the most complex amongst the three cases I studied, for various reasons. There are so many components involved in their agreement, has the largest budget, and most varied income streams.

The organization has relied on earned income to generate most of its revenue and while the rental of the restaurant is bringing in just a fraction of the organization's revenue, there are indirect methods this partnership is benefitting the organization - through concessions and catering services. The restaurant is also benefitting with its partnership with the organization. During my interview with Ed Cambron, he mentioned that they serve a high volume of constituents and they are potential diners and/or bar patrons for Volvér. The restaurant also gained a first-class kitchen, giving the catering company its headquarters to generate profits for its business.

Additionally, price points are on the higher side for all three restaurants, with Volvér being the priciest. The main dining room at the Kimmel Center is an intimate space that seats around 35 people and offers a prix fixe menu (two versions) -  an eight-course tasting ($95) or a decadent 12-course tasting ($150), both available with a beverage pairing from Volvér's very knowledgable sommelier (Jenkins 2015). Le Chéri and La Peg's prices vary, dependent on their lunch and dinner menus but prices still range anywhere from $9 appetizers to $34 entrees. And though their prices are not as steep as the super fancy Volvér, it is priced high enough to still possibly deter certain audiences.

The only minor issue I see with this partnership is the exclusivity of the restaurant for the organization. While this saves the organization the headache of hiring caterers to its various events, it becomes limiting for its customers who want lower price points and a more casual dining experience. But being that most businesses are open to collaborative ideas and are continuously working on building them, I do not believe this issue to be too hindering for the organization.

# ANALYSIS

After completing my research, I had to analyze each partnership separately to gain perspective on the larger picture. While each case is unique, with different agreements and relationships, I found that the results of these partnerships provided comparable results. Some partnerships are more mature in their cycles, some more complex, and some are trying to reassess their situations. While the partnerships varied, I found that all three organizations stayed true to their mission.

What is important to note is that there are different factors that make some of these partnerships more viable than the others. These varying factors contribute in determining what makes a partnership between a restaurant and a nonprofit organization successful. Two main contributors include:

1. Choosing a model that works for you, with clear agreements, and implemented by efficient leadership and management:

    a. How much does each partner make?
    b. What are the catering rights?
    c. How much will the two partners be actually involved in each other's day to day functions?
    d. What is the purpose? Is it for financial gain? Is it for audience engagement?

2. They have to be beneficial for both parties. If one side of the partnership holds more control, it cannot work.

All three cases felt that the right brand fit is important in building these relationships. The restaurant's culture had to fit with the organization's culture and vice versa. This in turn affects its audience engagement. It appeared that the partnerships with the restaurants were slightly increasing audience participation, however while all three organizations consistently measure in terms of various things, none of them have measured the audience participation between the partnerships and if there are any overlaps. Both FringeArts and the Kimmel Center's relationship with the restaurant may be too new. And FringeArts doesn't have the proper base to measure against yet, since they changed their whole business model when the partnership began. The Kimmel Center does not believe that the restaurant helps in increasing audience attendance. Instead, the restaurant enhances the organization's brand. They are not measuring exactly what its impact on attendance is and even if it was, Ed Cambron does not believe that they have the staff capacity to do so. The Philadelphia Art Alliance does not have the proper system in place to properly measure the overlap in audience engagement between restaurant patrons and gallery attendees. Nor does the restaurant perceive the need to assess the benefit of its relationship with the Art Alliance.

So while one partnership relies heavily and more directly from the income of the restaurant, it can be hypothesized that the other two are benefitting in a slightly more indirect way. One has increased its audience participation, which affects its overall income and the other is gaining more earned income through its outside catering services. As of now, all three of these relationships are fairly new and will need more time to grow in determining what the long term financial effects of the partnerships are.

# CONCLUSION

Through my research, I found that these partnerships do not create immediate solutions in financially sustaining an organization. The partnerships help in increasing audience participation, engaging its audiences and leveraging its brands. All this leads to engaging new and younger donors and allowing for organizations to be creative in new programming to generate more earned income. It however involves various factors, unique to each organization and partnerships.

This thesis presents basic principles of partnerships between nonprofit arts organizations and restaurants. It is my hope that this thesis will serve as a starting point for more detailed research on this topic. Some further research to consider would be how these particular partnerships are developing, what these types of partnerships look like in other cities and/or countries, and possibly narrowing the topic down even more to study specific types of arts and cultural organizations. Through further studies, focusing on the two sectors, it may help organizations become more creative in increasing their overall revenue.

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## APPENDICES

## APPENDIX i - ORGANIZATION INTERVIEW QUESTIONS

1. What do you think is the history and relationship between food and audience participation/engagement?
2. How has the partnership with a restaurant affected the organization?
3. How has the partnership affected the organization's audience participation? Has it increased it? Has it changed the demographic?
4. What factors were taken into consideration when deciding what restaurant to partner with? Who approached whom?
5. How has it affected your organization's financial stability? Is there a lease or other kind of financial agreement with the restaurant?
6. How much are the nonprofit arts organizations now relying on contributed vs earned income? (It used to be that many organizations were relying on more contributed but that's shifted a little bit.) What do you think about that?
7. Do you think Philadelphia's relationship with the arts and dining experience is special or do you think there's a relationship in any city you go to? Why is this happening now?
8. Is there a way for you guys to determine the shared audience, between the restaurant patrons and the center? How is that being measured?
9. Why do you think some of these partnerships have worked and some haven't?

## APPENDIX ii - FINANCIAL ACCOUNTANT INTERVIEW QUESTIONS

1. Why do you work specifically with nonprofits?
2. Have you provided for-profit businesses with your services? If so, what can you tell me are the major financial management differences of the two sectors?
3. How long have you worked with the organizations?
4. What is the organization's revenue model? What is the organization's financial pie made of? How much income is the organization getting from the restaurant?
5. How are expenses allocated? How much of it is tied to delivering the mission of the organization?
6. What is the process of building the organization's budget? What is included?
7. What is the forecasting process, both short-term and long-term?
8. Does the organization have any benchmarking information? Who do they benchmark against and why?
9. What financial risk can you identify for the organization?
10. In working with other nonprofit organizations, would you say you see more organizations relying on earned income versus contributed now?
11. What is the financial relationship between the restaurant and the organization? Is it strictly a lease agreement? Do they split a percentage of profits? Are there extra percentages involved?
12. Philadelphia Art Alliance specific - You've worked with the Philadelphia Art Alliance since 2010 and so you've seen various relationships between the organization and restaurants, at least the financial relationships. How would you say that the relationship with Le Chéri is different? Would you say that it's different?
13. Philadelphia Art Alliance specific - It looks like the restaurant generates a big portion of the PAA's revenue. Has this always been the case?

## APPENDIX iii - RESTAURANT INTERVIEW QUESTIONS

1. There's this growing trend of restaurants partnering with nonprofit arts organizations in Philadelphia. What do you make of it?
2. As one of these restaurants, that made the decision to partner with a nonprofit arts organization, what was the reasoning to do so?
3. Has your audience/customer change? Who did you have in mind as your target customer when partnering with the nonprofit arts organization?
4. What factors were taken into consideration when deciding what nonprofit arts organization to partner with?
5. How has it affected your restaurant's finances?
6. What are the major differences in your customers between your two restaurants?
7. Do you think Philadelphia's relationship with the arts and dining experience is special or do you think there's a relationship in any city you go to?

## APPENDIX iv - NOTE 8 TO PHILADELPHIA ART ALLIANCE’S 2014 AUDITED FINANCIAL DOCUMENT

8. Lease Termination Obligation

The Alliance had a lease with a tenant for restaurant space that was terminated by the tenant in August 2013. The Alliance was responsible to reimburse the tenant a percentage of their upfront equipment and fit-out costs upon termination. The amount due to the tenant was $161,500 and $183,000 as of August 31, 2014 and 2013, respectfully. The amount due is payable in monthly installments of $2,833 with no interest through May 2019. In May 2014, the Alliance and former tenant reached an agreement that reduced the lease termination obligation $13,000. **(See additional notes below)*

Following are maturities of payments due for the lease termination obligation:

| | |
|---|---|
| Year ending August 31, 2015 | $34,000 |
| 2016 | $34,000 |
| 2017 | $34,000 |
| 2018 | $34,000 |
| 2019 | $25,500 |
| | $161,500 |

*Note - In 2015, this was re-negotiated. The organization has extended payments out 10 years on a no-interest repayment schedule that calls for monthly payments of $1251.

**APPENDIX v - NOTE 12 TO THE PHILADELPHIA ART ALLIANCE'S 2014 AUDITED FINANCIAL DOCUMENT**

12. Leasing arrangements

The Alliance received rental income amounting to $147,912 and $102,969 for the years ended August 31, 2014 and 2013, respectively. Portions of the gallery facilities are rented for private functions under agreement terms that vary by function. Rental income under these agreements was $3,335 and $7,160 for the years ended August 31, 2014 and 2013, respectively. Additional restaurant space was leased under and operating lease agreement that was terminated by the former tenant in August 2013 (See Note 8). Rental income earned under this lease including taxes was $95,809 for the year ended August 31, 2013.

The Alliance entered into an operating lease agreement in September 2013 with a new restaurant expiring September 30, 2018. Under the terms of the agreement, monthly rental payments were $8,000 beginning October 1, 2013 with annual escalations. Rental income earned under this lease including taxes and utilities was $144,577 for the year ended August 31, 2014. A lease commencement payment of $25,000 to be applied against the cost of restaurant improvements was also received upon the execution of the lease. The following is a schedule by years of approximate future minimum rentals at August 31, 2014 for each of the next five years:

| | |
|---|---|
| Year ending August 31, 2015 | $101,500 |
| 2016 | $107,500 |
| 2017 | $113,500 |
| 2018 | $119,500 |
| 2019 | $10,000 |

## APPENDIX vi - NOTE 1A TO THE FRINGEARTS' 2014 AUDITED FINANCIAL DOCUMENT

1A. Organization and Nature of Operations

On June 13, 2012, FringeArts purchased its existing building located on the Delaware Riverfront from the City of Philadelphia. With the renovations to the building, including a theater, restaurant and bar, the Organization intends on hosting performances throughout the year. The Philly Pump House Association was formed to manage the restaurant and bar operations.

## APPENDIX vii - NOTE 5 TO THE FRINGEARTS' 2014 AUDITED FINANCIAL DOCUMENT

5. Commitments

On May 2, 2014, the Philly Pump House Association entered into a management agreement with La Peg, LLC to manage the La Peg Restaurant located in the building. As part of this agreement, the Pump House provided for pre-opening expenses on behalf La Peg and the restaurant opened in August 2014. Under the terms of this agreement, the Pump House receives $5,000 per month plus a varied percentage of the revenues of La Peg. During the year ended December 31, 2014, the Pump House earned $28,767 from La Peg.